The Community Preservation Corporation
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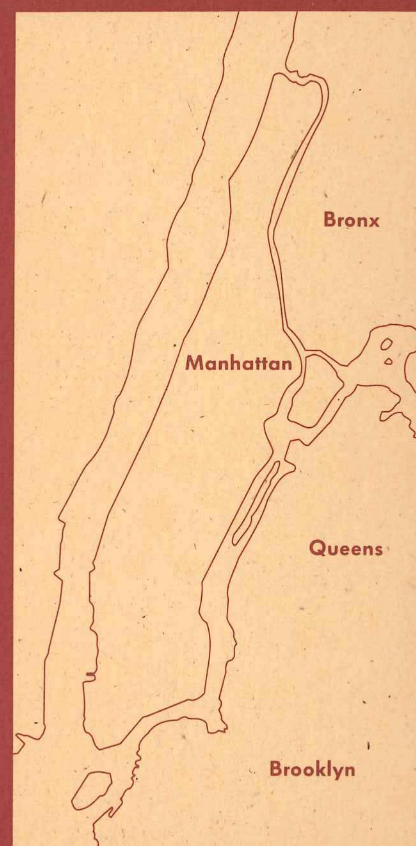
The Community Preservation Corporation

Fifteenth Anniversary
1974–1989

1989 Annual Report

Contents

CPC Lending Areas



Bronx	
Invested Funds	$117,845,032
Units	5,673
Manhattan	
Invested Funds	$169,679,229
Units	8,779
Queens	
Invested Funds	$ 27,020,326
Units	1,791
Brooklyn	
Invested Funds	$173,366,011
Units	6,865

The Community Preservation Corporation
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Fifteenth Anniversary 1974-1989

A History of CPC

In its 15 years, CPC has financed the rehabilitation or construction of over 23,000 housing units, representing public and private investments of over $480 million. This affordable housing has been a critical element in preserving neighborhoods without altering their ethnic or economic mix. The investments have received market rates of return, incurring virtually no defaults. CPC and New York City have produced a partnership that works.

The crux of this partnership consists of two parallel structures. On the one side is a government environment consisting of both regulations and subsidies to close the gap between housing costs and limited household incomes. On the other side is a financial structure that can respond to a positive public environment to invest in affordable housing. This partnership has built a bridge between the large sources of institutional credit and multiple small affordable housing investments.

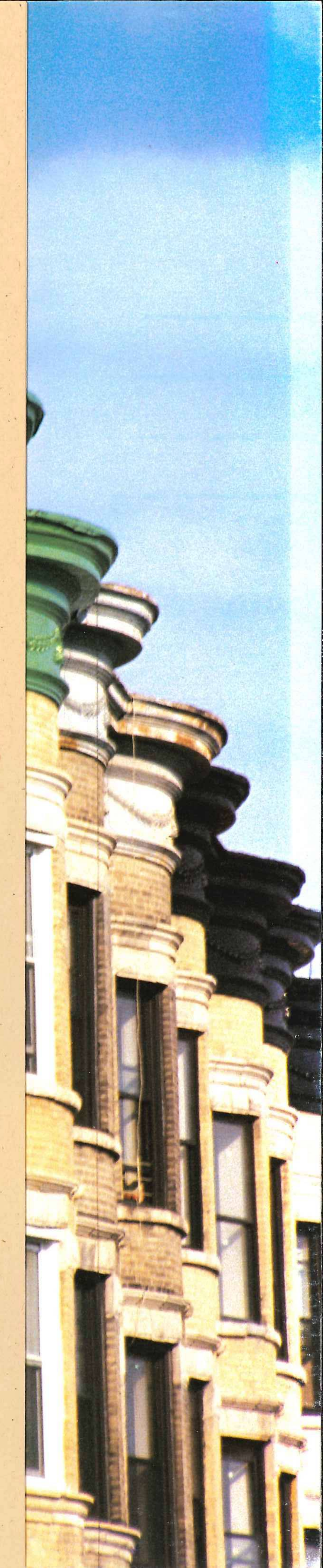
Highlights

Fiscal Year Performance 1988-89*	
New Loans Closed (Dollars)	
CPC and Other Private Funds	$ 44,946,564
Public Funds	88,429,731
Total	$133,376,295
New Loans Closed (Units)	
Manhattan	910
Bronx	831
Brooklyn	793
Total	2,534
Permanent Loans Closed (Dollars)	
CPC and Other Private Funds	$ 14,318,707
Pension Funds	10,778,000
Public Loan Funds	17,688,175
Total	$ 42,784,882
End-Loan Commitments	
Dollars	$ 13,680,000
Units	140
Lending Record 1974-89	
CPC Closed Loans (Dollars)	$487,910,598
CPC Closed Loans (Units)	23,108
End-Loan Commitments (Dollars)	$ 48,540,400
End-Loan Commitments (Units)	555

*FY 88-89 contained only 10 months. See Financial Statements.

Origins

CPC was created in response to an acute problem recognized by both the public and private sectors. During the 1970s, New York City's once solid neighborhoods experienced an alarming decline, losing an estimated



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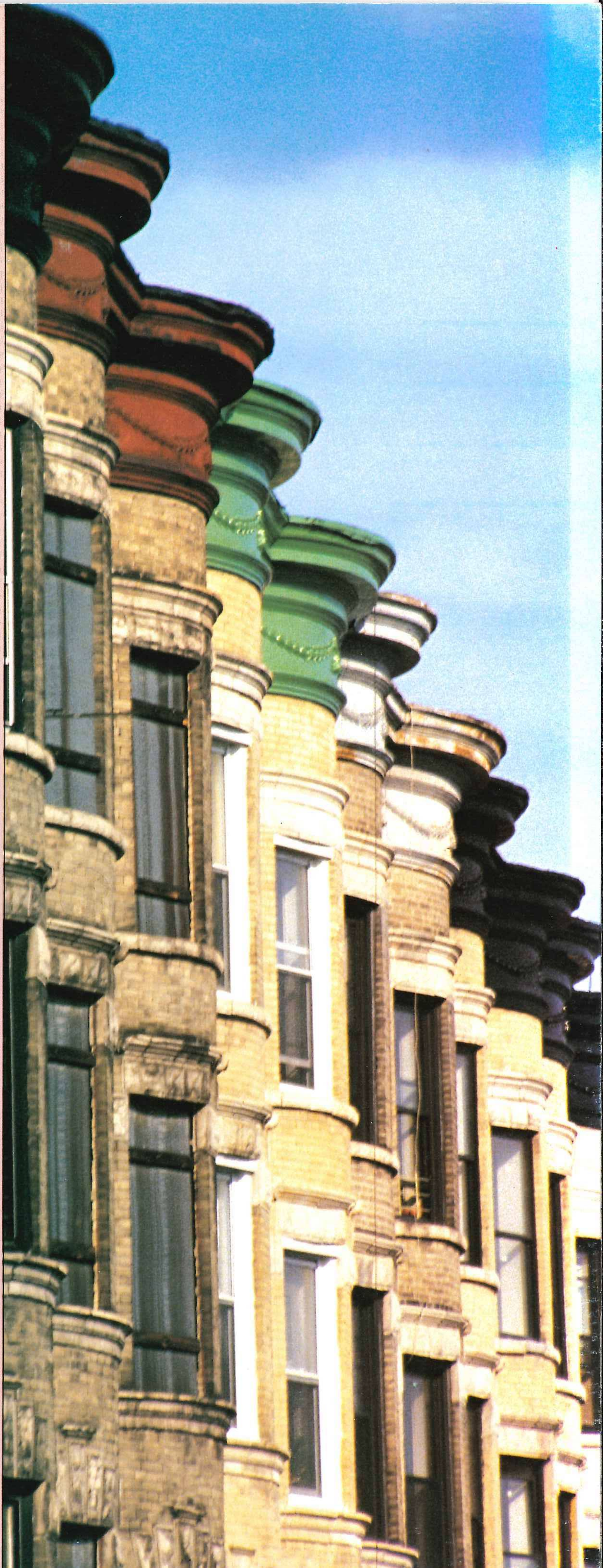
the New York City Police Pension Fund and the New York City Employees Retirement System to invest up to 2 percent of their assets in CPC's loans – $200 million is now committed. Further security for these investments is provided by mortgage insurance supplied by the State of New York Mortgage Agency.

In 1986, under the leadership of Richard Shinn, seven New York-based life insurance companies joined CPC (through a joint venture known as the Housing Partnership Mortgage Corporation) and agreed to forward-commit to purchase $100 million of Federal National Mortgage Association pass-through securities. The securities are backed by loans on affordable condominiums and single-family homes whose construction CPC and others have financed.

CPC Evolving

CPC is today expanding beyond New York City into the metropolitan area. The key to success will again be the development of a working partnership with state and local governments to create an environment for investment in affordable housing. The CPC model is being replicated in other parts of the country. A successful model is operating in Chicago, and another has recently started statewide in California. Efforts are being advanced to establish models in Detroit, Baltimore, and Boston. CPC has been directly involved in all these efforts, and is also working to create a sister organization for the rest of New York State.

CPC



To Our Members

Only in their most optimistic moments could the founders of The Community Preservation Corporation (CPC) have anticipated in 1974 their new company's longevity and success. CPC is now the principal private lender for affordable housing in New York City, and the largest organization of its kind in the country. Collaborating with the city, CPC has developed programs that both produce and preserve the affordable housing that has been critical to the preservation and rebuilding of low and moderate income neighborhoods. CPC's success is a tribute to the ingenuity of its founders, the guidance of its members and directors, and the close cooperation and support of its government partners.

Raymond V. O'Brien, Jr. (left) is Chairman of CPC. James F. Murray is Chairman of the Executive Committee. Glen E. Coverdale is Vice Chairman of CPC and the former Chairman of HPMC. Michael D. Lappin (seated) is President and CEO of CPC.

This past year was a fitting end to our first decade and a half of operations. Our activities were at record levels, both in units put into construction (2,534) and in dollar volume ($133 million). Our record continues to be virtually free of loan losses.

This year also set the stage for CPC's future. Our directors authorized CPC's expansion into six Hudson Valley counties, starting with Westchester and continuing into Putnam, Dutchess, Ulster, Orange and Rockland. On June 1, CPC opened an office in Yonkers to serve these new areas with their diverse housing needs — such as the rehabilitation of deteriorating apartment buildings, and the building of housing affordable to government and corporate employees and first-time home buyers. CPC's objective is not to press for any particular housing agenda, but rather to work with communities to help them realize their own objectives.

We are working with New York State to use their subsidy programs in these new areas, where assistance from the state is often the only subsidy available for affordable housing. Equally important is CPC's agreement with the State Comptroller to have the New York State Common Retirement Fund purchase up to $200 million of CPC mortgages that are insured by the State of New York Mortgage Agency. This replicates the 1984 agreements between CPC and the New York City Police Pension Fund and the New York City Employees Retirement System.

CPC has expanded organizationally as well. The seven insurance companies that were our partners in creating the Housing Partnership Mortgage Corporation in 1986 have now joined CPC in consolidating the two entities. In addition, several new bank members have joined CPC, including institutions active in the Hudson Valley.

As in 1988, this year's record volume of activity reflects New York City's unprecedented commitment to rebuilding its neighborhoods. CPC is the principal private lender in the city's 10-year, $5.1 billion housing plan. Over the last two years, CPC has put into construction or made a commitment to rebuild over 3,500 vacant city-owned housing units. This is having a dramatic impact on many once deteriorated neighborhoods. The progress of two neighborhoods – Harlem and the South Bronx – is the focus of part of this report.

Our record demonstrates the strong private role in preserving and rebuilding neighborhoods for low and moderate income tenants without gentrification. Yet that role is only possible with appropriate public actions. Rents must be set to permit feasible investment, and subsidies must be available to keep housing affordable. Further, these actions must be administered to be accessible to generally unsophisticated owners and developers. This means creating streamlined processes, and institutionalizing them so they can survive successive administrations.

CPC has become a model for similar partnerships around the country. In his State of the State address, Governor Cuomo called for the establishment of a CPC for the rest of the state. We are assisting that effort.

To duplicate CPC's success, local communities must rationalize their low and moderate income development processes and programs. At the same time, investments made to finance such projects must have access to long-term financing, principally through the secondary mortgage markets.

An adequate supply of affordable housing is crucial to the social and economic health of the city. We look forward to working with the new city administration to continue rebuilding neighborhoods, devising creative yet effective solutions to pressing problems.

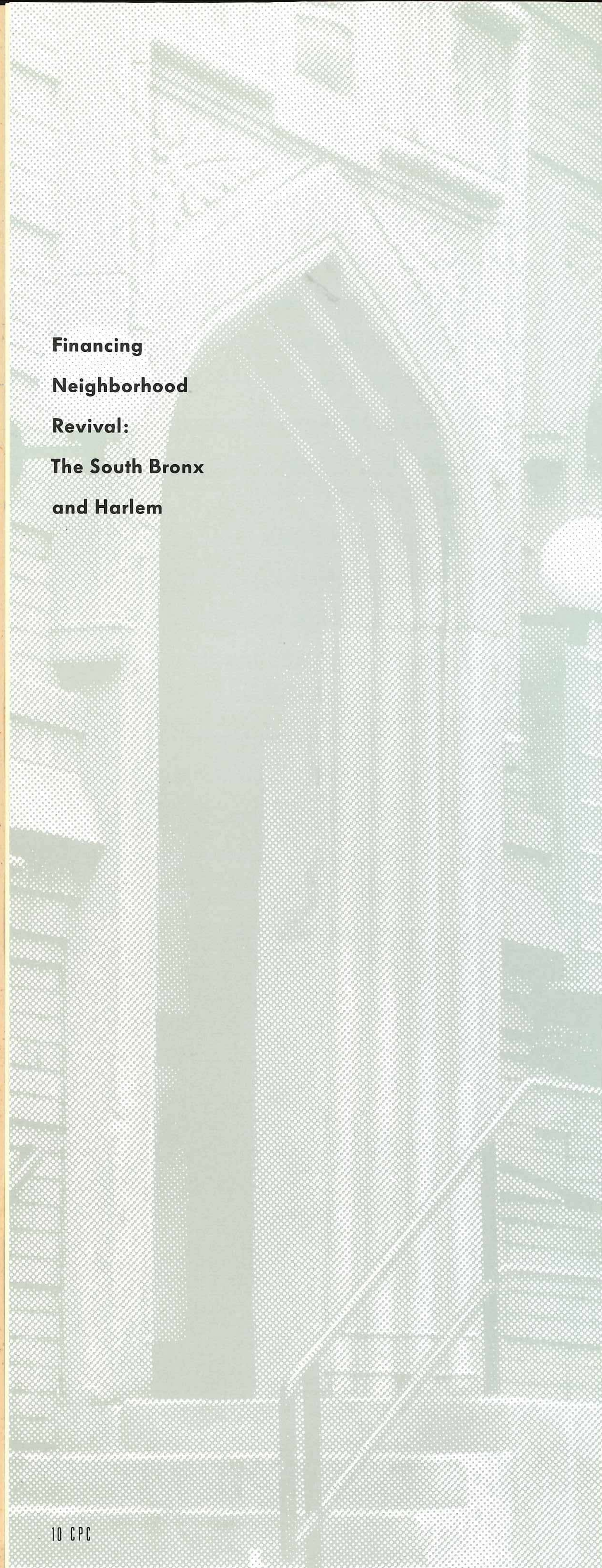
This past year saw the retirement from our board of two former chairmen, Jeffrey R. Grandy and Donald L. Thomas. Jeff Grandy provided important leadership at the start of our current expansion. Don Thomas, one of our earliest directors, has given us constant support and counsel. We are grateful for their service.

R. V. O'Brien, Jr.
Raymond V. O'Brien, Jr.
Chairman
The Community Preservation Corporation

Glen Coverdale
Glen E. Coverdale
Vice Chairman
The Community Preservation Corporation

Jim Murray
James F. Murray
Chairman of the Executive Committee
The Community Preservation Corporation

Michael Lappin
Michael D. Lappin
President & CEO
The Community Preservation Corporation



Financing Neighborhood Revival: The South Bronx and Harlem

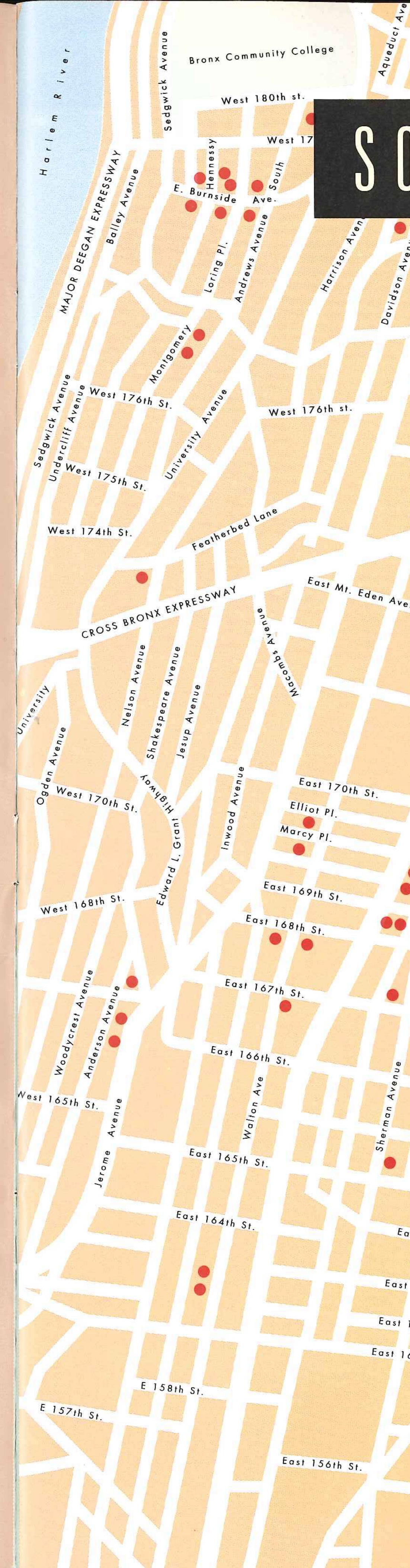
Financing the redevelopment of an entire neighborhood is a wholly different proposition from financing the rehabilitation of one building. Its scale requires the active support of the community's leadership. Without local support, rebuilding will undoubtedly meet resistance, and the inability to undertake a sustained effort may jeopardize any partial efforts. CPC has been fortunate to have just such support in the neighborhoods in which it has been active.

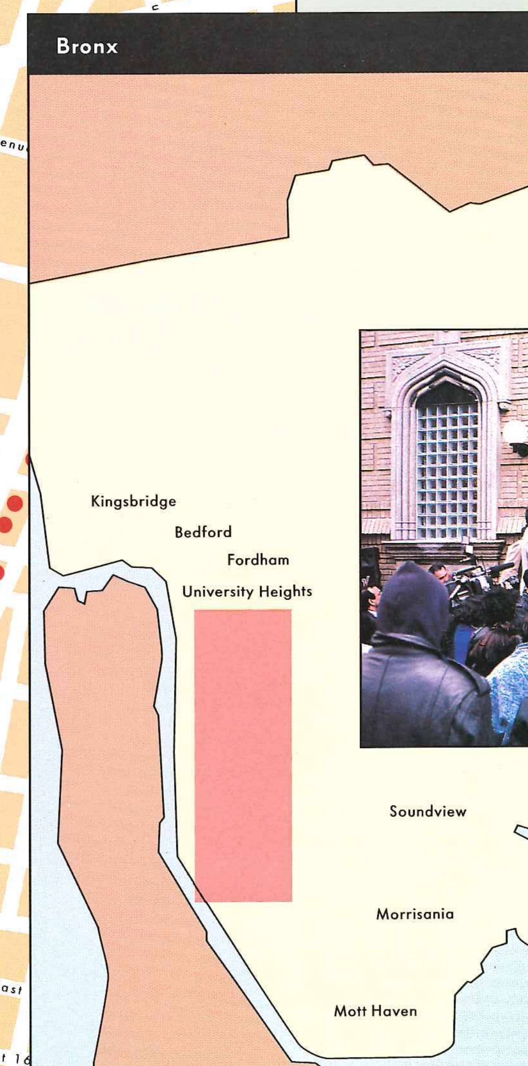
Neighborhood revival also requires a variety of tools to deal with the range of needs. In addition to moderate rehabilitations of occupied buildings, gut renovations of vacant properties are needed—particularly in deteriorated neighborhoods. Programs must also serve the diversity of income levels within the community, as well as provide opportunities for both renters and home owners.

New York City has imaginatively sought to address these different needs and, in collaboration with CPC, has developed several innovative programs. These programs serve the whole community and, due to streamlined processing, are able to involve small neighborhood builders and owners.

This can be seen in two neighborhoods where CPC is active—the South Bronx and Harlem. Our efforts include: financing new low income rental projects with community groups using federal tax credits and city financial subsidies; preserving privately owned low and moderate income occupied rental housing; developing vacant city-owned properties into moderate income rental properties; and financing the development of home ownership projects.

SOUTH BRONX





The South Bronx is nationally known as the home of the New York Yankees—but also as a symbol of urban blight. The neighborhood is only now being rejuvenated after suffering years of housing abandonment and devastation. Of the quarter of a million apartments that the city plans to create or rehabilitate over the next decade, between one-quarter and one-third will be in the Bronx. The Bronx is well structured for rejuvenation. Its network of highways and public

transportation is excellent. With 22 percent of its land devoted to parks and an as yet undeveloped waterfront, the Bronx has the highest proportion of public space of any borough. "The Bronx is beginning to grow again," says the Regional Plan Association. Vital to that growth is a strong housing stock.

CPC is today financing the rehabilitation or construction of over 6,300 housing units in the Bronx, over one-third of

THE NEW YORK TIMES, SUNDAY, APRIL 22

Bronx Renovation Gets a Hand

City and Banks Aid 270-Unit Complex Built in the 20's

owner have combined to fashion a $3 million renovation that has replaced roofs, upgraded most of its operating systems and revamped its courtyard to provide better security.

The combined effort has almost completely reversed the bleak outlook the building faced three years ago, according to Richard Berger. Mr. Berger is a partner of the Empire Realty Group, which has owned the complex since 1968.

Three years ago, he said, the buildings' infrastructure was showing its age, and the ... danger of slipping into a state ... The fact that the ...

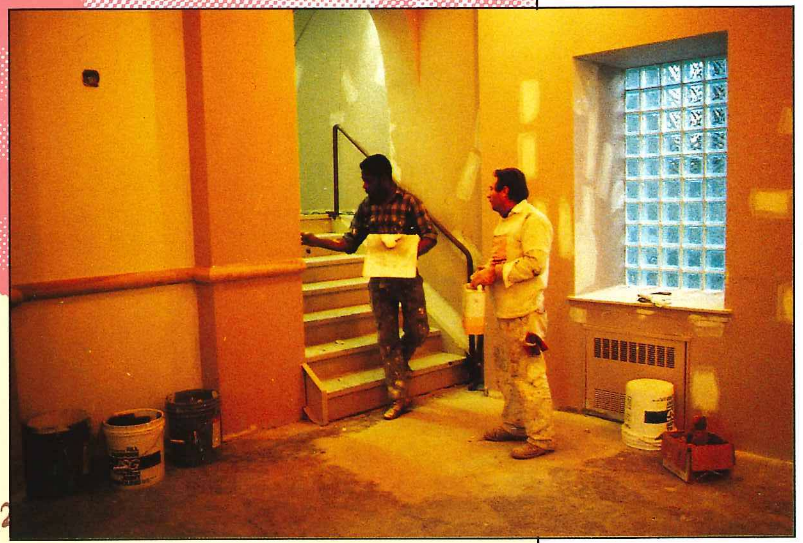
Community Preservation Corporation, the consortium of 32 city banks. By packaging public renovation funds, given at a 1 percent interest rate, with those from the consortium, given at market rates — in this case, ... percent — the Empire firm got a combined ... million renovation loan at an effective overall rate of just 8 percent.

That permitted Mr. Berger's company to install or improve roofs, facades, gas lines, water pipes, elevators, boilers, air-conditioner outlets, bathrooms, kitchens, apartment intercoms and courtyards. As required by the housing agency's policy, the tenants were involved in the renovation planning.

... time for the renovations, which were ... placing the tenants, was ... fire that forced ... The ...

... ness — since ... when gas pipes were ... weeks spent being inconvenie...

MR. BERGER said th... vation work had be... approved by city ... added that he understood ... happiness at being inconv... "Having your apart... while you live there is ve... ," he said. "But ...



The 42 two-bedroom apartments at 1901 Hennessy Place are fully occupied, mainly by families from nearby neighborhoods in the Bronx. Over 700 households applied for the apartments, which rent for $530 monthly.

which are in the South Bronx. The financing of 1901 Hennessy Place is one example.

"It's hard to imagine," wrote the *Wall Street Journal* in May 1988, "investing a dime in a building like 1901 Hennessy Place in the Bronx. Floors have been ripped up. Windows smashed. Beams charred by fire. A few green tiles clinging to a distant wall are the only hint that families once lived there." One year later, 1901 Hennessy Place had been fully rehabilitated, with a new roof, windows, mechanical systems, refurbished apartments, and a restored lobby. Its 42 two-bedroom apartments, renting for $530 per month, were fully occupied.

"In fact," says Steve Zervoudis, 1901 Hennessy's developer and a principal in the Galaxy General Contracting Corporation, "we could have rented whatever units we could renovate. We had over 700 applicants for our 42 apartments."

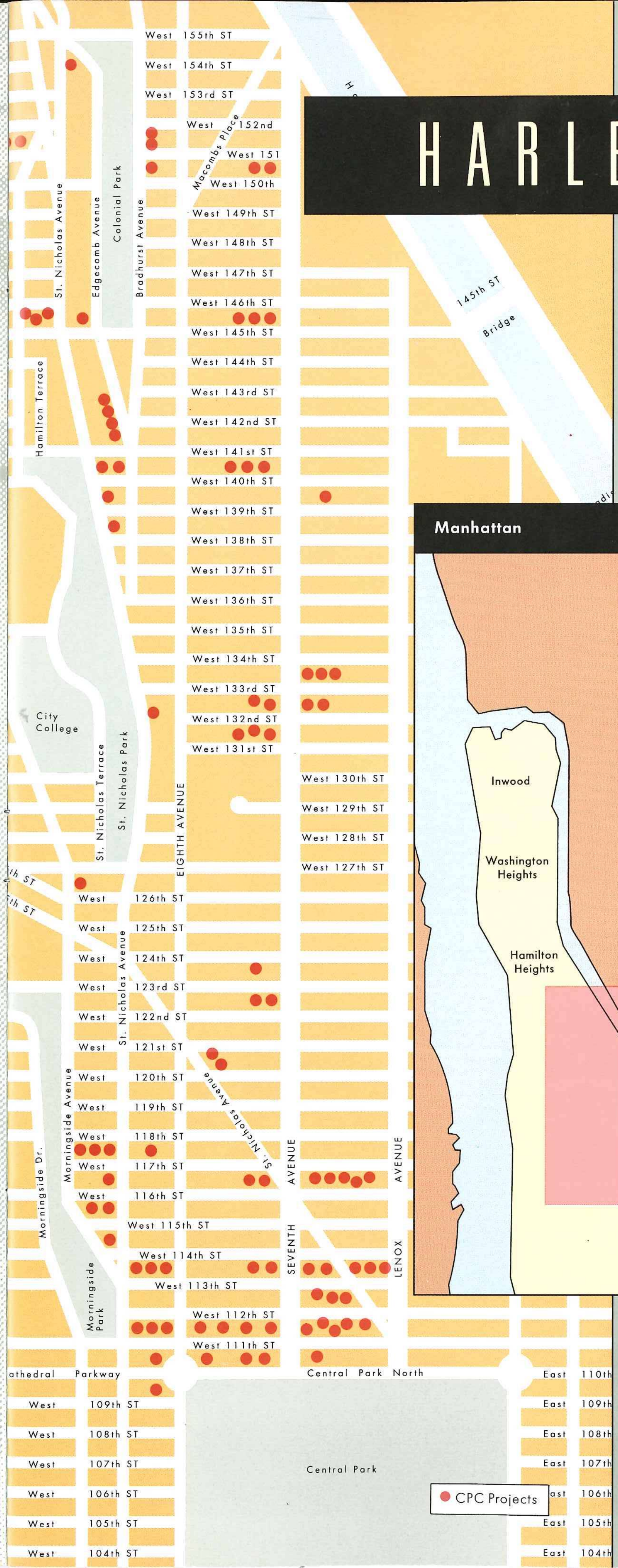
Under the Vacant Building Program, Mr. Zervoudis reconstructed three buildings, including 1901 Hennessy Place, alongside Burnside Avenue. (Over the past two years, CPC has also financed the moderate or gut rehabilitation of six other buildings within two blocks of 1901 Hennessy.) With a CPC loan of $2.76

The principal subsidy program being used in Bronx neighborhoods is the Vacant Building Program, which was developed by HPD and CPC.

million and a one percent loan from the city of $6.5 million, the three Galaxy buildings' 162 units cost $52,000 each to reconstruct, excluding soft costs. HPD received thousands of applications for the renovated apartments. After an initial selection by lottery, Galaxy personnel interviewed prospective tenants under HPD supervision.

Mr. Zervoudis has been active in the Bronx since he came to this country from Greece in 1963, and has been in business on his own since 1974. Galaxy is a family business in which his father and uncle work with him, side-by-side, keeping an eye on the sites and making sure the work is progressing properly and on time.

The 1901 Hennessy project was unusually difficult because, "It was only a shell. We couldn't use anything that was there before. Everything but the shell was new. We sometimes tried to use old things, like the marble in the lobby. But it was too hurt and broken. Before we rebuilt, this building was hurt and broken."

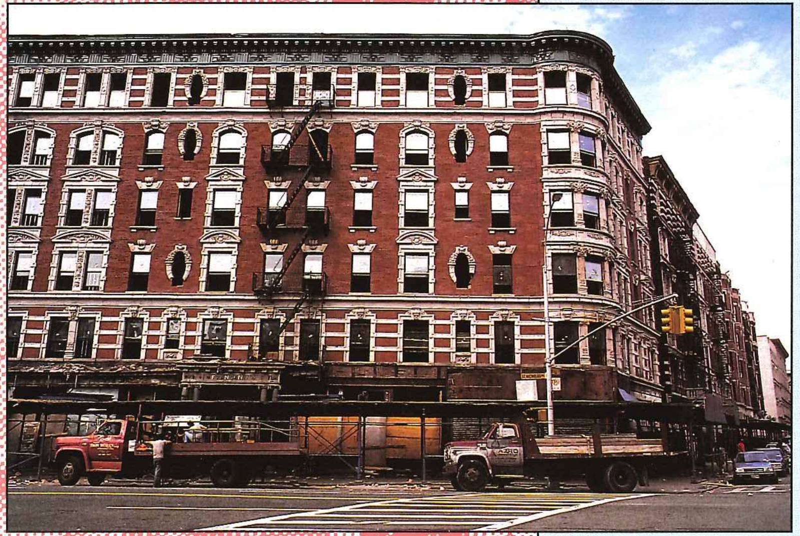


HARLEM

Harlem, a neighborhood steeped in culture and history, presents diverse housing needs. In addition to the very visible need for gut rehabilitation of vacant shells, many occupied buildings must have basic mechanical systems replaced so that they can provide housing for generations to come. And programs must also be created to encourage home ownership in areas of Harlem where families now have no option but to rent.

New York City and CPC have sought to address these varied needs in order to revitalize all segments of the Harlem housing market. For the lowest income residents, CPC is financing gut rehabilitation rental projects sponsored by the Harlem Urban Development Corporation. These projects take advantage of federal low income housing tax credits. Meanwhile, the Participation Loan Program and the Vacant Building Program create and improve low and moderate

The developers of the nine buildings in Harlem known as Site L are Peter Clinton; the West Harlem Community Development Group, represented by Margaret McNeil; and Stan Reifer.



income rental housing. And for the middle income households who wish to own a home in Harlem, CPC offers condominium end loans.

Of the more than 2,000 units CPC is financing in Harlem, two examples–one of a Vacant Building Program project, the other of a privately renovated condominium–illustrate the complexities and rewards of this type of development.

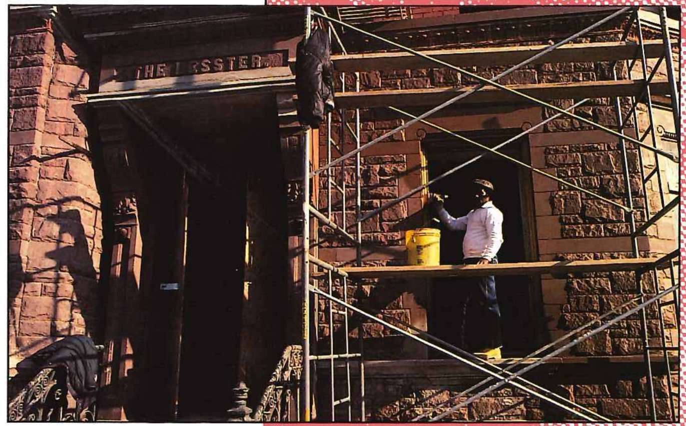
When Peter Clinton first went with Stan Reifer and representatives of the West Harlem Community Organization to look at the vacant shell on 111th Street, he had had plenty of development experience –but in conventional, middle income projects. "I could see the potential," said Clinton. "But I knew that the cost of the buildings–nine dollars for the nine buildings in Site L–would only be a bargain if you could do the job properly. This kind of work is much harder than new construction. The walls are crooked. Nothing is straight. You never know what you're going to find when you start construction."

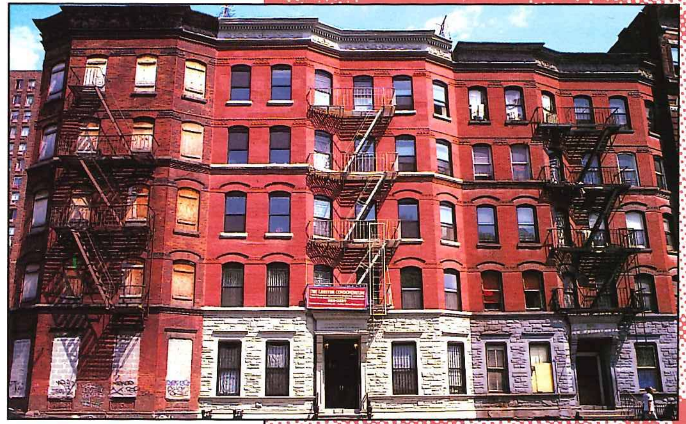
In working with CPC for over ten years in both Brooklyn and Washington Heights, Mr. Reifer had seen many difficult projects brought to successful completion.

"Here costs were crucial. We had to keep costs down, and that wasn't easy. The city lent $5.2 million. The construction costs came in at around $52 per square foot, or $51,337 per unit."

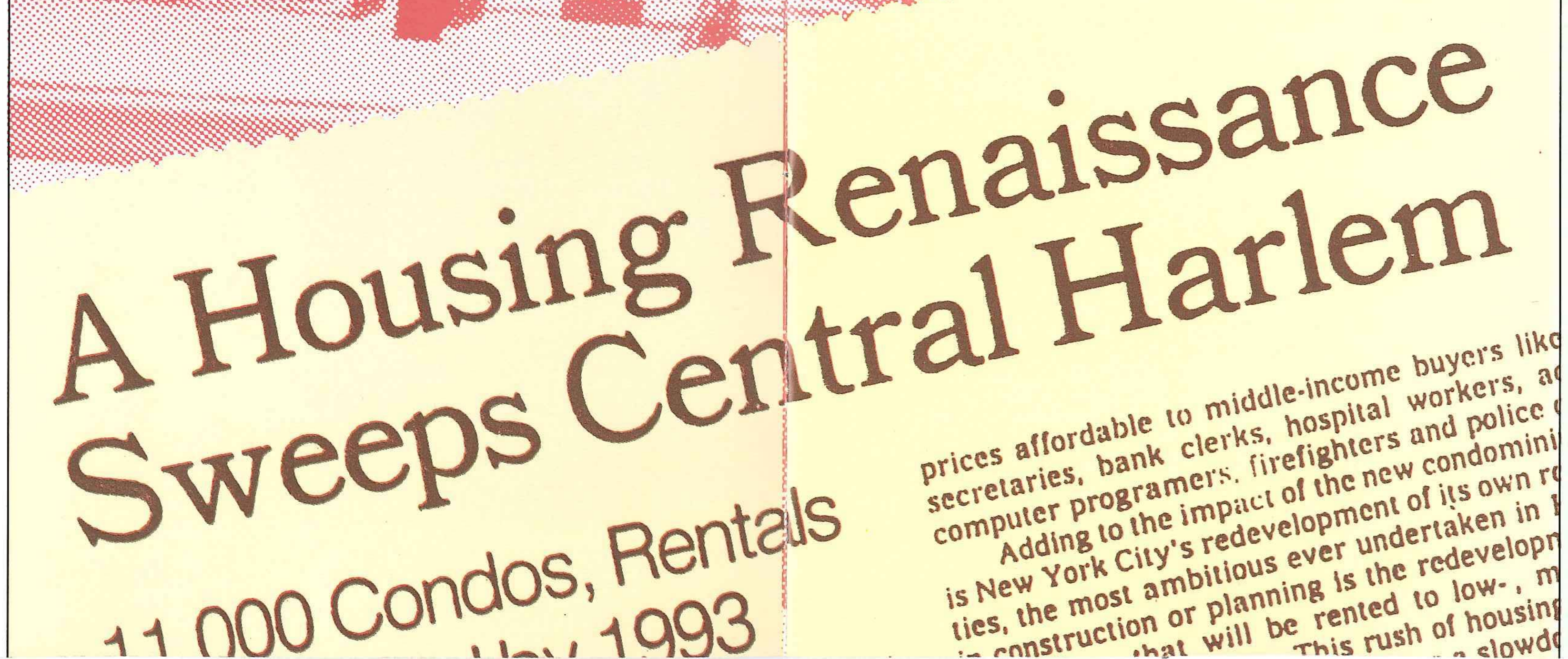
Mr. Clinton, who had not worked with CPC previously, says the experience was very different from working with conventional bankers. "CPC checked into everything about my background. Everything. They interviewed the condo owners who had bought from me. They talked to business associates and friends. CPC doesn't just listen to the developer's story. They vet the developer until they're sure you have the ability to do the job."

The two partners see several advantages in CPC financing. First, the processing is fast and efficient—a total of six months from CPC commitment to closing. During this time, the developers must put together a full set of plans and specifications and get all approvals through the Department of Buildings. Second, CPC's calculation of income and expenses is fair and provides for a modest profit margin and management fee. Third, CPC's engineers are helpful both in assessing the problems of the building and in finding good subcontractors.





The Lesster, which stands across from St. Nicholas Park, was developed as a 10-unit condominium by Sarah Kovner, Eunice Jackson, and Jeanne Warner.

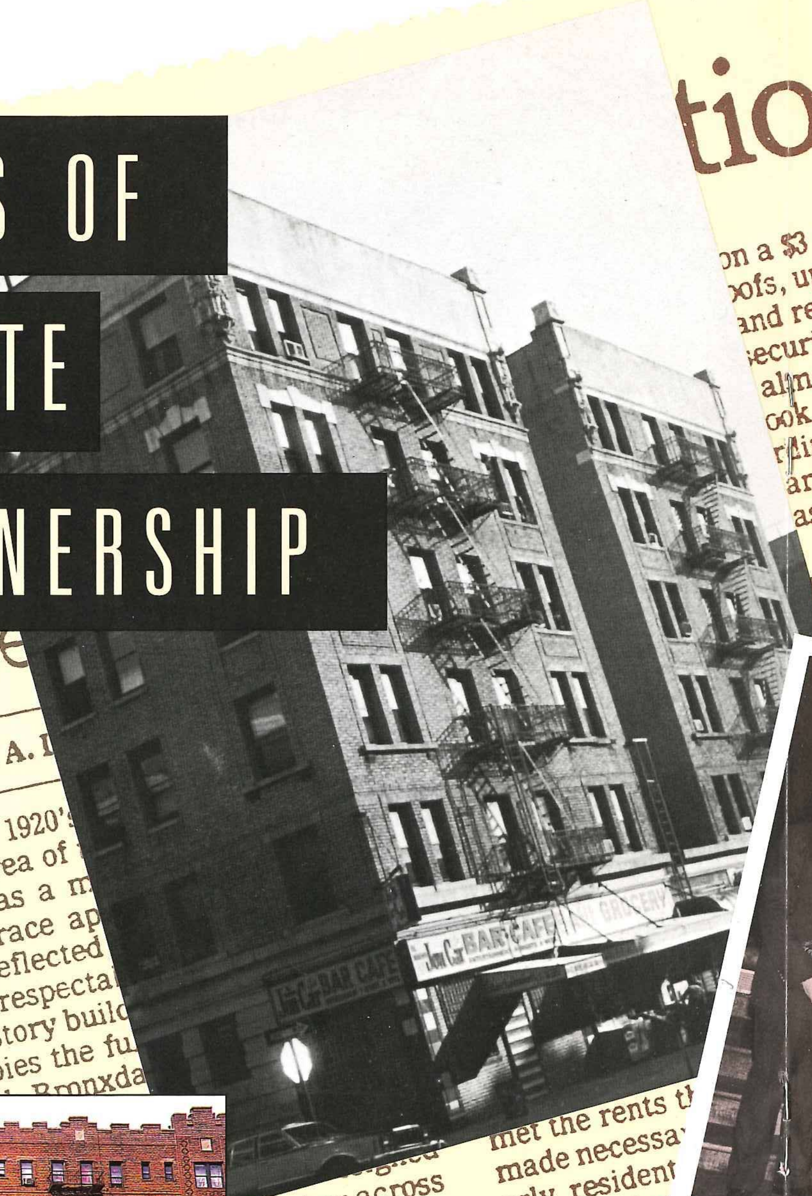


In winning the building, the partners anticipated a mix of one-third low income tenants, who would pay $325 a unit, and two-thirds moderate income tenants, who would pay $600. In effect, the moderate income rents subsidize the low income rents, which is one of the few ways low income housing can be built today in the absence of federal subsidies, notes Mr. Reifer. They received 12,000 applications for the 139 units they had available. A lottery is used to select applicants who are then interviewed personally, usually at home, by the West Harlem Community Group, which, as part owner, is handling tenant selection.

West Harlem President Margaret McNeil says, "This building is located in the heart of Harlem. Its rehabilitation will secure an important block. When it's occupied, we'll see new life where once there was devastation."

Building permanent housing out of devastation is the point of the city's program. "The city really hit it right this time," says Mr. Reifer. "They concentrated the sites in groups in order to bring up the whole neighborhood at one time. You put 250 good families onto a block where you're fighting drug abuse and you have 250 allies you didn't have before. That really matters here because this Vacant Building Program is a builder program, as opposed to the old developer program. It used to be that the builder could get in and get out. Not here. The builder has to stay on, be concerned about his investment, make sure it's all working out right."

15 YEARS OF PUBLIC-PRIVATE PARTNERSHIP

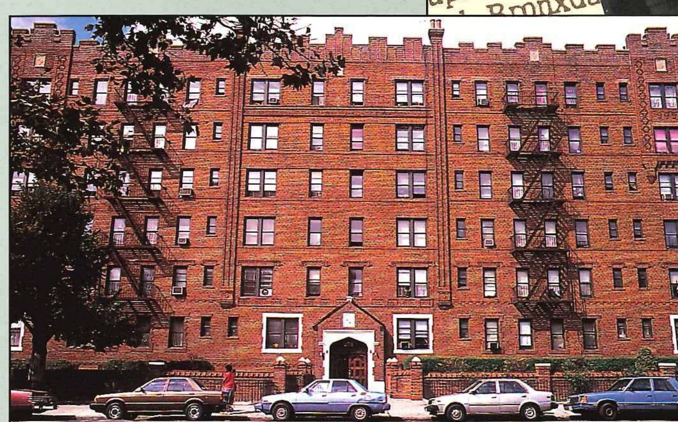


1974

CPC is formed by the New York Clearing House Association, which is shortly joined by the Savings Banks Association of New York State. Within 11 months of its founding, CPC commits on its first rehabilitation loan, One Arden Street in Washington Heights.

1978

CPC expands beyond its original target neighborhoods of Washington Heights and Crown Heights to finance housing throughout the city's moderate income neighborhoods. In 1979, CPC begins to work with the city's Participation Loan Program, which financed the building at right.



1982

On behalf of HUD's National Recognition Program for Community Development Partnerships, President Ronald Reagan presents an Award for National Excellence to Michael Lappin to honor CPC's work with the Participation Loan Program, which was at the time funded by the federal Community Development Block Grant Program.

1984

Two New York City public pension funds, the New York City Employees Retirement System and the New York City Police Pension Fund, agree to purchase $100 million of CPC loans for affordable housing. (This is later increased to $200 million.) Almost all CPC loans are now sold to the pension funds, enabling CPC to free up dollars for new loans.

1986

To increase home ownership in low income neighborhoods, seven New York based insurance companies join with CPC to form the Housing Partnership Mortgage Corporation. Now fully integrated into CPC, the insurance companies primarily finance condominium end loans to help New Yorkers buy their apartments.

1988

As part of its 10-year, $5.1 billion housing plan, New York City launches the Vacant Building Program, for which CPC is the principal private lender. Vacant shells are renovated into low and moderate income housing as the first step in rebuilding neighborhoods, including Crown Heights in Brooklyn, pictured here, and Harlem and the South Bronx.

the public sector's responsibility to leverage private sector resources and make the created housing affordable to the intended beneficiaries. This entails drawing up workable regulations and efficient subsidy programs to bridge the gap between the economic requirements of attracting private financing and the social fact of limited household incomes.

The key to public policy in this area is to standardize public programs in order to make investment in affordable housing a routine matter, and to develop a broadly based industry of low-cost developers, both for-profit and not-for-profit.

Achieving the goal of preservation requires three basic elements: (1) rent increases to permit investment in rehabilitation; (2) subsidies to make those rent increases affordable; and (3) streamlined machinery to engage the low-cost builders and owners who own the bulk of this property.

Rent increases must pay for the cost of preservation. The rent must be adequate to support the costs of financing and operating a building. Rent increases must also be implemented in a timely manner. The state rent administration recently issued a report laying the groundwork for resolving several serious rent issues.

Despite the necessity of rent increases, there must be a recognition that increases will not be affordable to all tenants. Efforts to ease the affordability problem have included the city's J-51 program, which reduces real estate taxes, and the

It is the public sector's responsibility to draw up workable regulations and efficient subsidy programs to bridge the gap between limited incomes and the economic requirements of financing. This building on Newkirk Avenue in Flatbush was renovated under PLP.

city's Participation Loan Program, which reduces the cost of debt. Even with these two measures, the lowest income tenants still require additional subsidies.

To subsidize tenants who cannot afford the necessary rent increases in rehabilitated buildings, the city and state should implement a tightly targeted program with three prerequisites for eligibility: buildings must be located in targeted low income areas; they must be newly constructed or meet certain minimum rehabilitation standards; and rents must be limited to certain fair market standards.

Equally important is the creation of the right machinery to make government programs accessible to the city's small and medium size builders without inordinate red tape and delays. Most affordable housing opportunities are the result of small independent owners and contractors working on individual projects, such as the renovation of a 40-unit apartment house in the Bronx or a row of townhouses in Harlem. The ability to access low-cost builders will greatly reduce the cost of constructing housing and therefore lessen the amount of subsidy required to support it.

CPC Corporate and Mortgage Staff

Central Staff

(left to right) John McCarthy is Executive Vice President. Julie Carr is Senior Analyst. Rick Kumro is General Counsel.

Central Staff

Susan Adelman is a Vice President. Dale McDonald is a Senior Vice President. Susan Foresta is an Assistant Vice President.

Central Staff

Donald Prusock is Assistant Director of Closings. Stefan Sebastian is Treasurer. Mariann Perseo is Vice President and Director of Closings.

Brooklyn/Queens

Susan Pollock is an Assistant Vice President. Gunnel Rydstrom is a Mortgage Officer. Mary Brennan is a Senior Vice President. Pat Figueroa is a Mortgage Analyst.

Manhattan/Bronx

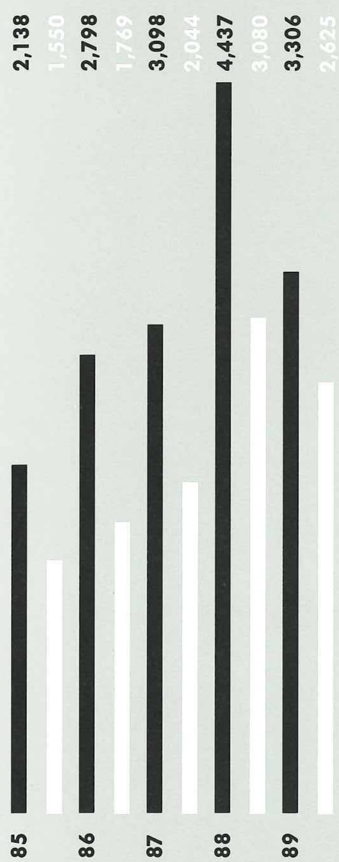
Bruce Dale is a Vice President. Jack Greene is a Senior Vice President. Susan Swider is a Mortgage Officer.

Manhattan/Bronx; Westchester

Christopher Garlin is an Assistant Mortgage Officer. Joe D'Lando is a Vice President. Manny Colon is a Mortgage Intern. Dick Conley is a Mortgage Officer.

CPC Financials

CPC Income and Expenses*
($ in thousands)



Income from Operations (Net of Interest Expense)
Expenses Other than Interest

*FY 88-89 contained only 10 months. See Financial Statements.

Financial Overview

The Community Preservation Corporation completed its fifteenth year with an operating surplus of $680,469. Accumulated surpluses and reserves from all years now total approximately $7.3 million. Income from operations has exceeded expenses in each of the last ten years. This financial stability enables an assertive pursuit of CPC's objectives:

It furnishes a reserve against losses on construction loans, which carry inherent risks and are generally ineligible for mortgage insurance. CPC's construction loan balance was $52 million at this year's end, with another $31.7 million yet to be funded on closed loans. Approximately 80 percent of our construction lending this year represents financing of gut rehabilitations of vacant projects. While CPC has never suffered a loan loss during its history, an economic downturn could impose pressures not now foreseeable on our portfolio.

It supplies the FHA-mandated financial strength for CPC's continued eligibility as a Section 223(f) co-insuring lender. FHA requires a minimum of $1.5 million in "sound capital resources."

It provides the minimum financial requirements for seller/servicer status for the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC).

It enables CPC to expand its range of services. This year, for the first time, CPC began operations beyond New York City's five boroughs, with the opening of a Yonkers lending office. This will be our base for serving the affordable housing needs of Westchester County and communities in the lower Hudson Valley.

The three factors contributing to the surplus are origination fees, interest income from construction loans, and fees for servicing the mortgage portfolio. This year, as in the past, the increase in CPC's surplus was a result of increased lending activity and effective cost control.

In comparing this year's results with those of prior years, two accounting changes should be noted. First, the company converted to a June 30 fiscal year-end from the August 31 date used in the past. FY 1988-1989 therefore contains only 10 months. Second, this year is the first in which certain origination income and expenses were deferred under Statement of Financial Accounting Standards No. 91. Applicable to all lenders, the Statement's effect this year was a net deferral of $320,807 in CPC income that would have been recognized in the year under the accounting standards formerly applicable.

Prospects for the future, while favorable, are subject to fluctuations in several factors: cyclical economic trends, the supply of public subsidies, and the efficient functioning of government agencies affecting rental housing.

Report of Independent Public Accountants

To the Board of Directors of
The Community Preservation Corporation:

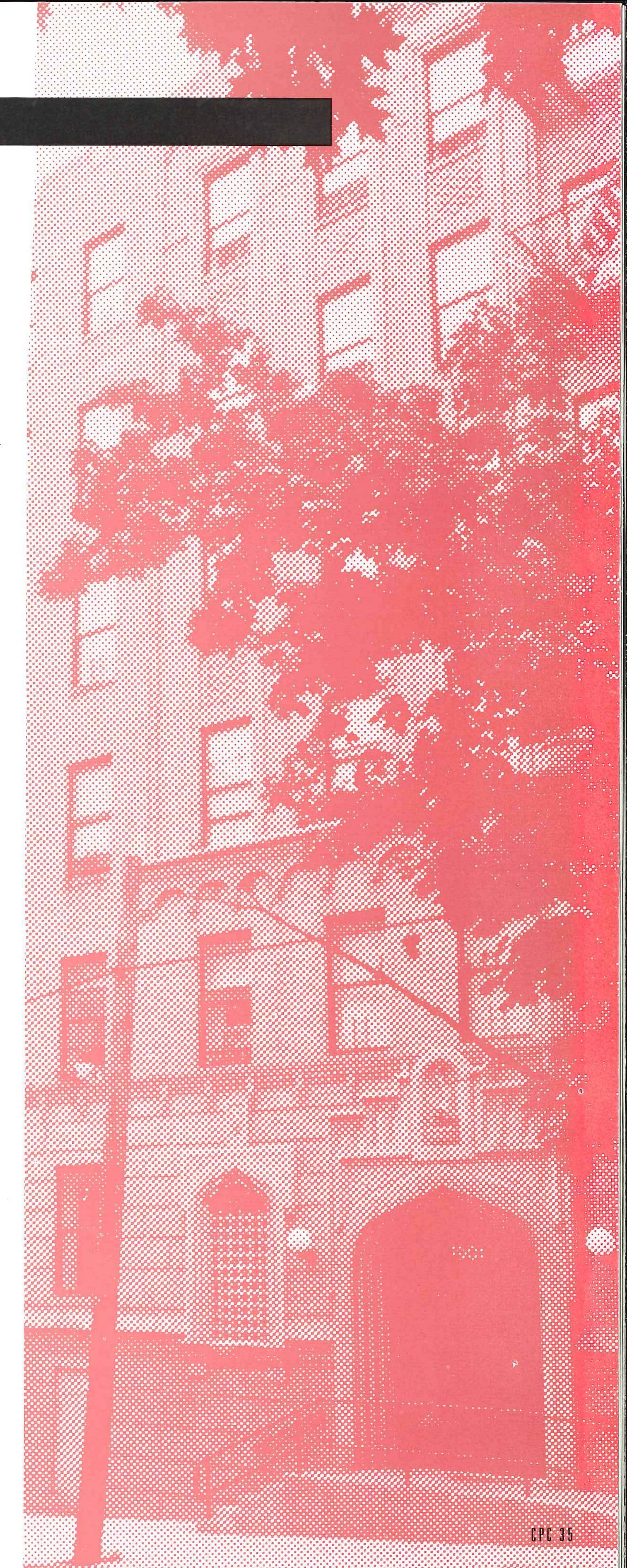
We have audited the accompanying balance sheets of The Community Preservation Corporation (a New York not-for-profit corporation) as of June 30, 1989 and August 31, 1988, and the related statements of support, revenues and expenses, and changes in fund balance for the ten months ended June 30, 1989 and for the year ended August 31, 1988. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Community Preservation Corporation as of June 30, 1989 and August 31, 1988, and the results of its operations and the changes in its fund balance for the ten months ended June 30, 1989 and for the year ended August 31, 1988 in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

New York, New York
September 25, 1989



Balance Sheets

Balance Sheets—June 30, 1989 and August 31, 1988

Assets	1989	1988
Investment in First Mortgage Loans (Notes 2 through 6):		
Construction loans, net of participations and allowance for possible investment loss	$52,175,871	$42,753,322
Permanent mortgage loans	4,013,882	1,967,393
	56,189,753	44,720,715
Cash and Cash Equivalents:		
Subject to immediate withdrawal	1,794,815	2,702,824
Short term investments, including restricted funds of $96,247,278 (Note 7)	114,450,000	46,338,492
Accrued Interest Receivable	775,916	513,075
Other Assets	1,515,195	1,170,176
	$174,725,679	$95,445,282
Liabilities and Fund Balance		
Liabilities:		
Notes payable under revolving credit agreement—unsecured (Note 4)	$40,000,000	$30,400,000
Accounts payable and accrued expenses	2,236,295	5,424,931
Participants' deposits (Note 7)	116,650,356	46,338,492
Escrow and other deposits of borrowers	8,937,130	6,852,402
Other liabilities	114,437	322,465
	167,938,218	89,338,290
Commitments and Contingencies (Notes 2, 3 and 9)		
Fund Balance (Note 12)	6,787,461	6,106,992
	$174,725,679	$95,445,282

The accompanying notes to financial statements are an integral part of these balance sheets.

Statements

Statements of Support, Revenues and Expenses and Changes in Fund Balance for the Ten Months Ended June 30, 1989 and for the Year Ended August 31, 1988

Revenues and Public Support:	1989	1988
Interest on mortgage loans	$ 5,249,286	$ 5,308,455
Commitment fees	592,826	1,389,223
Servicing fee income	551,257	312,352
Interest on short-term investments	244,978	812,683
Other revenues	35,625	136,009
Public support	12,000	9,000
Total revenues and public support	6,685,972	7,967,722
Expenses:		
Interest (Note 8)	3,380,164	3,531,003
Employee compensation and benefits (Note 10)	1,227,549	1,651,347
Professional fees	342,600	343,253
Office expenses (Note 9)	424,075	364,393
Other	631,115	721,122
Total expenses	6,005,503	6,611,118
Excess of revenues and public support over expenses	680,469	1,356,604
Fund Balance, beginning of year	6,106,992	4,750,388
Fund Balance, end of year	$ 6,787,461	$ 6,106,992

The accompanying notes to financial statements are an integral part of these statements.

1. Summary of Significant Accounting Policies:

The significant accounting policies of The Community Preservation Corporation (the "Corporation" or "CPC") are as follows:

Federal Income Taxes

The Internal Revenue Service has determined that the Corporation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Income Recognition

Interest on construction loans is accrued monthly based on the daily outstanding principal balances of such loans. Fee income from loans serviced by the Corporation is accrued based on the outstanding principal balances of such loans.

Commitment Fees

Commitment fees are charged to prospective borrowers principally to offset the Corporation's costs of originating construction loans. For all construction loans closed prior to September 1, 1988, for financial statement purposes, commitment fees are recorded in income over the commitment period, provided that the period is reasonably determinable. Where such period is not determinable, commitment fees are recognized as income upon the closing of the mortgage loan.

Beginning September 1, 1988, as prescribed by Statement of Financial Accounting Standards No. 91, "Accounting for Non-Refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases" ("SFAS No. 91"), direct loan origination costs are offset against any related commitment fee collected and the net amount is deferred. If the commitment is exercised, the net deferred amount is recognized over the life of the loan as an adjustment of interest income. If the commitment expires unexercised, the deferred portion is recognized in income upon expiration of the commitment. If the loan is subsequently sold, any remaining deferred balance is recognized in income at the time of the sale.

The Corporation deferred $984,818 of fees and $664,011 of costs, net of amortization, during the initial year of adoption of SFAS No. 91. The net deferred fees are included on the Balance Sheet as part of the Corporation's investment in first mortgage loans.

Pledged Mortgage Loans

Mortgage loans pledged on a nonrecourse basis as collateral for nonrecourse collateral trust notes are accounted for as if they had been sold to the holders of the notes. Accordingly, no accounting recognition is given to the pledged loans or the collateral trust notes (see Note 5) in the accompanying financial statements.

Change in Fiscal Year

CPC has changed its fiscal year-end from August 31, to June 30, and has commenced reporting on that basis for the ten months ended June 30, 1989.

Reclassifications

Certain amounts contained in the financial statements for the year ended August 31, 1988 have been reclassified in order to conform to the method of presentation used for the current year.

2. Mortgage Loans and Commitments

The following is a summary of closed mortgage loans as of June 30, 1989 and August 31, 1988 (000's omitted except for number of loans):

1989	Construction	Permanent	Total
Number of loans	122	205	327
Funded commitments:			
Total funded balance	$185,070	$119,679	$304,749
Less – Participants' interests	132,073	55,420	187,493
Mortgage loans sold (Note 6)	–	25,646	25,646
Mortgage loans pledged (Note 5)	–	34,599	34,599
Corporation's portion	52,997	4,014	57,011
Less – Allowance for possible investment losses	500	–	500
Deferred commitment fee income, net of accumulated amortization	321	–	321
	$ 52,176	$ 4,014	$ 56,190

1988	Construction	Permanent	Total
Number of loans	97	178	27[illegible]
Funded commitments:			
Total funded balance	$79,784	$96,726	$176,51[illegible]
Less – Participants' interests	36,531	46,542	83,07[illegible]
Mortgage loans sold (Note 6)	–	13,591	13,59[illegible]
Mortgage loans pledged (Note 5)	–	34,625	34,62[illegible]
Corporation's portion	43,253	1,968	45,22[illegible]
Less – Allowance for possible investment losses	500	–	50[illegible]
	$42,753	$ 1,968	$ 44,72[illegible]

At June 30, 1989, the Corporation had the following commitments to lend additional funds to existing borrowers under the terms of their construction loans and under commitment letters issued by the Corporation in respect of new mortgage loans (000's omitted except for number of loans):

	Number of Loans	Amount
Existing construction loans	122	$31,73[illegible]
Mortgage commitments accepted by borrowers	4	4,40[illegible]
Mortgage commitments not yet accepted by potential borrowers	17	20,55[illegible]
	143	$56,68[illegible]

The Corporation's participants in various mortgage loans and mortgage loan commitments are commited to lend an aggregate of approximately $213 million in connection with such loans and commitments.

3. Allowance for Possible Investment Losses

The Corporation's purpose is to make mortgage loans for the development and preservation of residential properties in certain areas of New York. These lending areas have been designated by the Corporation as preservation areas, areas whose housing stock is experiencing physical deterioration and which might be preserved through the combined effort and resources of government and the private sector.

The soundness of the Corporation's multifamily mortgage loans is dependent upon, among other things, rent increases to be approved by the City's and/or New York State's rent regulatory bodies upon completion of planned rehabilitations. The viability of many of these loans is also dependent upon the granting by the City of real property tax abatements and/or exemptions. It is the opinion of the management of the Corporation that, when and if such governmental measures are implemented, the rental income authorized for each of the properties will be adequate to maintain the viability of each of the Corporation's loans on these properties. Substantially all permanent mortgage loans are insured with the Rehabilitation Mortgage Insurance Corporation ("REMIC") or the State of New York Mortgage Agency ("SONYMA"). Both programs provide insurance coverage against any losses resulting from, among other things, foreclosure and sale of the real property, which is the security for the loan, in an amount of up to 50% of the principal balance of the loan for loans made prior to August 31, 1981 and up to 75% of the principal balance of loans made after August 31, 1981. All loans sold to the NYC pension funds (see Note 6) are insured by SONYMA for 100% of principal and interest balances.

Construction loans are not presently eligible for REMIC or SONYMA insurance and, accordingly, the Corporation's exposure to a possible loss as a consequence of defaults by borrowers is substantially greater than is the case for permanent loans. The Corporation investigates all potential borrowers and analyzes the financial feasibility of the proposed rehabilitation program before approving a construction loan. The Corporation has made construction loans for the purpose of rehabilitating properties which will be converted to cooperative ownership or condominiums upon the completion of the rehabilitation. Construction loans on conversions of these properties involve lending risks which are believed by management to be greater than those which are applicable to rental apartment loans.

The Internal Revenue Act of 1986, as amended, made fundamental changes in the taxation of individuals and business enterprises which are owners of real estate. Certain of the Corporation's borrowers may be adversely impacted by those changes and, accordingly, may encounter economic and other pressures which were not contemplated at the time that the Corporation's loans were made. As of June 30, 1989, the Corporation has not incurred any losses on its loan portfolio; however, because of the inherent risks in, among other things, financing of construction in buildings with tenants in occupancy, management determined in 1981 that it would be prudent to establish an allowance for possible investment losses. During the period from 1981 to 1984, an aggregate of $500,000 was provided for this allowance. In the absence of specific information that an investment loss has occurred or is likely to occur, no additions to this allowance are presently contemplated. No amounts have been charged to the allowance through June 30, 1989.

In addition to the allowance amount, management considers the Corporation's fund balance, which is unrestricted in nature, to be available to cover any unforseen losses which may occur as a result of its lending activities.

4. Revolving Credit Agreement

The Corporation is a party to a revolving credit agreement with certain banks whereby the banks have agreed to lend the Corporation up to $52 million through January 31, 1993, generally for the purpose of financing construction loans made by the Corporation. Borrowings are evidenced by notes which mature on January 31, 1994. The notes bear interest at the prime lending rate of the agent bank. No compensating balances are required to be maintained under the agreement; however, the Corporation is required to, among other things, maintain working capital, as defined, equal to the lesser of $50,000 or 5% of all outstanding sums borrowed pursuant to the agreement.

Borrowings under this agreement during fiscal 1989 and 1988 were at interest rates which ranged from 10.0% to 11.5% and 8.25% to 10.0%, respectively. At June 30, 1989 and August 31, 1988, the interest rates on these borrowings were 11.0% and 10.0%, respectively. At June 30, 1989 and August 31, 1988, $40 million and $30.4 million, respectively, were outstanding under this agreement.

5. Nonrecourse Collateral Trust Notes

The Corporation is a party to a note purchase agreement with 30 banks. Under this agreement, the banks have agreed to purchase up to $100,000,000 of nonrecourse collateral trust notes issued by the Corporation, subject to certain conditions. Notes issued pursuant to this agreement are secured entirely by the pledge of permanent mortgage loans made by the Corporation. The agreement, as amended, permits the Corporation to issue both permanent and interim notes. Interim notes are issued periodically and, when an amount sufficient to warrant the issue of a permanent note has been accumulated, are replaced by permanent notes. The principal and interest received by the Corporation on mortgages pledged on a permanent basis, net of allowable fees and expenses, are remitted to noteholders quarterly. The principal and interest received on mortgages pledged on an interim basis, also net of allowable fees and expenses, are remitted to the noteholders at the time that the mortgages are pledged on a permanent basis. At June 30, 1989 and August 31, 1988, the remaining outstanding balances of these notes were approximately $34.6 million at both dates, which was equal to the principal balances of the pledged mortgages. The unused portion of the amount committed under this agreement at June 30, 1989, was approximately $23.5 million.

Pursuant to the terms of a servicing agreement dated January 10, 1978, the Corporation services the mortgages pledged as collateral for the notes. The Corporation receives an annual servicing fee of ¼ of 1% based on the aggregate outstanding principal balances of the pledged mortgages.

6. Mortgage Loans Sold

During the year ended August 31, 1984, the Corporation entered into buy/sell agreements with the New York City Police Pension Fund and the New York City Employees Retirement System (the "Pension Funds"). The agreements, as amended, provide, among other things, for the Pension Funds to purchase certain mortgages originated by the Corporation in an aggregate amount not to exceed $200 million. Pursuant to the terms of related servicing agreements, the Corporation will receive a servicing fee equal to ¼% per annum of the outstanding principal balance of the mortgages sold to the Pension Funds. As of June 30, 1989, 51 loans with an aggregate outstanding principal balance of approximately $25 million have been sold to the Pension Funds. At June 30, 1989, the Pension Funds have committed to purchase approximately $102 million in additional mortgage loans.

As of June 30, 1989, one loan with an outstanding principal balance of $658,323 has been sold to the Federal National Mortgage Association.

7. Participants' Deposits

The Corporation has entered into agreements with the New York City Department of Housing Preservation and Development ("HPD") whereby HPD has agreed to participate in certain of the Corporation's mortgage loans. In connection with these agreements, HPD deposits funds with the Corporation to be used to fund the HPD commitment to participate in such loans. Under a July 1, 1988 agreement, CPC is required to segregate HPD's funds into a separate account, invested on behalf of HPD in short-term investments until the funds are required to fulfill the HPD commitments or are otherwise used or remitted to HPD. The HPD portion of each mortgage bears interest at the rate of 1¼% per annum.

The Corporation receives a servicing fee from HPD equal to ¼ of 1% per annum on the aggregate advances made on each construction loan and ¼ of 1% per annum on the aggregate balances of HPD deposits unadvanced under each construction loan.

At June 30, 1989 and August 31, 1988, HPD deposits consisted of the following:

	1989	1988
Unadvanced loan commitments all of which were invested in short-term funds	$ 96,247,278	$41,948,876
Mortgage interest and principal collections and accumulated interest on short-term investments	7,188,400	4,389,616
	$103,435,678	$46,338,492

At June 30, 1989, other participants had deposited an aggregate amount of $13,214,678 in respect of their commitments to CPC.

8. Interest Expense

Interest expense consisted of the following for the ten months ended June 30, 1989 and the year ended August 31, 1988:

	1989	1988
Interest on revolving credit agreement	$3,070,742	$2,553,963
Interest on HPD funds and escrows	149,088	873,101
Interest on construction performance deposits	160,334	103,939
	$3,380,164	$3,531,003

9. Commitments and Contingencies

The Corporation leases office space in four locations under agreements which expire in 1991, 1992, 1995 and 1996. Annual base rents are subject to escalations or decreases as provided for in the leases. Rental expense for 1989 and 1988 was $204,075 and $170,405, respectively. The minimum annual rentals under noncancellable leases are due as follows:

1990	$239,610
1991	242,695
1992	218,705
1993	184,438
1994	178,225
Thereafter	303,577
	$1,367,250

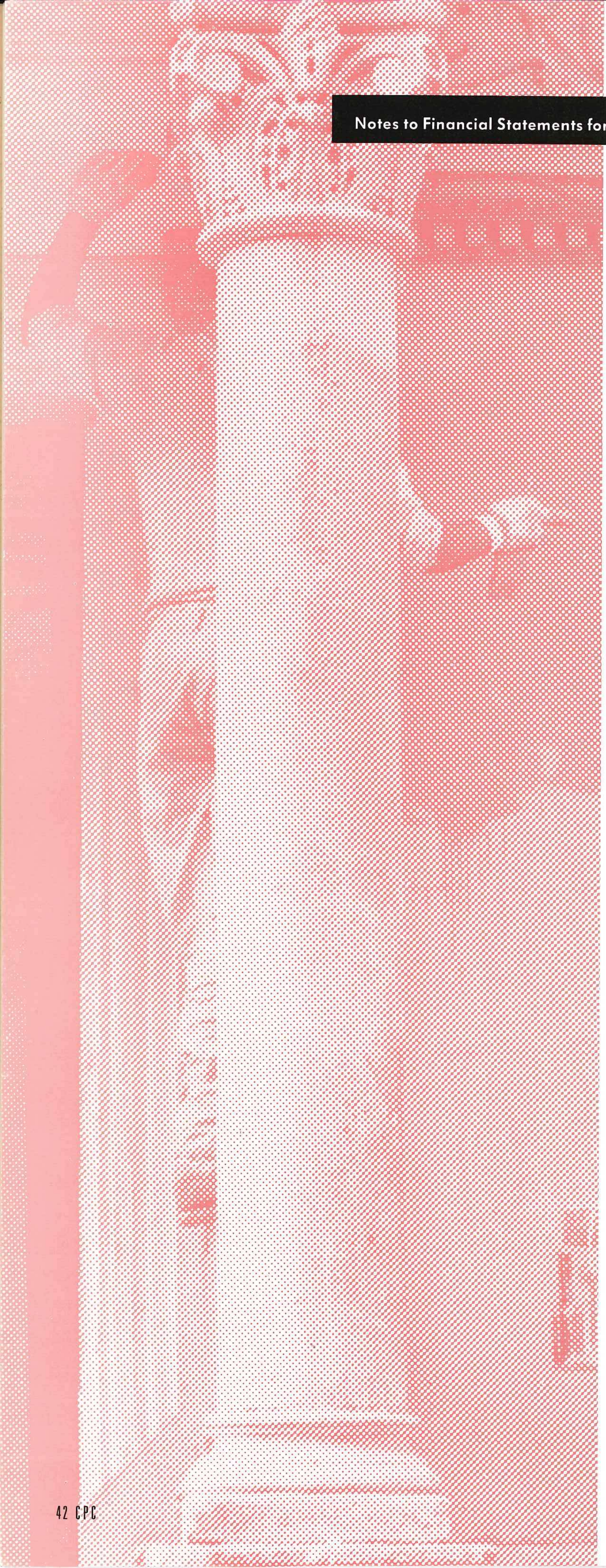
The Corporation is subject to several lawsuits and other claims directly or indirectly related to its normal activities. While the outcome of these proceedings is not presently determinable with certainty, management believes any such outcome will not have a material adverse effect on the financial position of the Corporation.

10. Pension Plan

In April, 1982, the Corporation established a defined contribution pension plan covering all officers and employees. Each officer or employee is included in the plan after three years of service and benefits are payable upon retirement or earlier, as provided for in the plan. The plan, as amended, provides for the Corporation to contribute annually an amount equal to 10% of the base salary of each eligible officer or employee. Pension expense for the ten months ended June 30, 1989 and for the year ended August 31, 1988, was $78,240 and $48,262, respectively. The net plan assets available for benefits at June 30, 1989, the last valuation date of the plan, was $225,027.

11. Related Party Transactions

The Corporation is a party with the Housing Partnership Mortgage Corporation ("HPMC") to an Agreement for Management and Staff Services dated as of October 29, 1986. This agreement provides for the Corporation to furnish to HPMC the services of the Corporation personnel to conduct HPMC's business; it also provides for the Corporation to furnish the use of office space and other office supplies and office services. The agreement specifies the manner in



which the value of such personnel and other services is to be determined.

The Corporation is also party with HPMC to a loan agreement dated as of October 29, 1986, pursuant to which the Corporation may lend to HPMC up to an aggregate amount of $600,000 to pay for personnel and other services furnished by the Corporation under the Agreement for Mangement and Staff Services. At June 30, 1989, $377,177 was outstanding pursuant to the loan agreement. For the ten months ended June 30, 1989 and for the year ended August 31, 1988, the Corporation made loans to HPMC totaling $133,936 and $144,216 for the entire amount of its services in the respective years. These loans bear interest at a maximum rate of 6% per annum and are repayable, subject to certain deferral provisions, at an amount not in excess of $42,000 per year, including interest.

Directors elected by the Corporation constitute two thirds of HPMC's Board of Directors.

HPMC was formed in 1986 by CPC and a consortium of seven insurance companies. During 1989, CPC and the insurance companies reached an agreement in principle to wind up the affairs of HPMC and liquidate its assets as soon as practicable after obtaining certain approvals and completing certain corporate actions which are prerequisites to the plan. On September 22, 1989, certain of such approvals were obtained, although the liquidation of HPMC was not authorized. It is anticipated that the insurance companies will become members of CPC and will contribute an aggregate amount equal to the loan principal prepayments received by them from HPMC in respect of amounts previously advanced by them to HPMC. The accompanying financial statements of CPC include a reserve of $45,000 for the estimated amount of the loan made by CPC to HPMC which may not be collectible if HPMC is liquidated.

12. Organization

The Corporation was incorporated on July 10, 1974, under the Not-For-Profit Corporation Law of the State of New York for the purpose of making mortgage financing available in neighborhoods which are currently experiencing deterioration or disinvestment.

Membership in the Corporation is achieved by obtaining a majority vote of the existing members in a particular class, or by action of the Board of Directors, if there are no members in such class, and through making a capital contribution to the Corporation. Capital contributions are evidenced by nontransferable capital certificates which are not redeemable. The Corporation is prohibited from distributing any assets or property to any individual or member of the Corporation.

CPC Chairmen, Presidents and Directors, 1974-1989

Chairmen

Alfred S. Mills 1974-78

James O. Boisi 1978-80

Joseph C. Brennan 1981-82

John D. Kyle 1983-84

Donald L. Thomas 1984-86

Francis L. Bryant, Jr. 1986-87

Jeffrey R. Grandy 1987-88

Raymond V. O'Brien, Jr. 1988-Present

Presidents

Warren T. Lindquist 1974-77

Edgar A. Lampert 1977-80

Michael D. Lappin 1980-

Directors

James O. Boisi
1979-1986
Morgan Guaranty Trust Company of New York

Robert G. Brandely
1978-1979
The East New York Savings Bank

Joseph C. Brennan
1975-1984
Emigrant Savings Bank

William R. Brennan, Jr.
1975, 1979-1981
Harlem Savings Bank

Francis L. Bryant, Jr.
1985-1987
Manufacturers Hanover Trust Company

Eugene J. Callan
1979-1981
The New York Bank for Savings

Glen E. Coverdale
(CPC) 1989-Present
(HPMC) 1987-1989
Metropolitan Life Insurance Company

Morris D. Crawford, Jr.
1978
The Bowery Savings Bank

Frank G. Creamer, Jr.
1989-Present
Citicorp Real Estate, Inc.

Edward A. Farley
1982
Manufacturers Hanover Trust Company

William C. Frentz
(CPC) 1989-Present
(HPMC) 1986-1989
Guardian Life Insurance Company of America

Harry D. Garber
(CPC) 1989-Present
(HPMC) 1987-1989
The Equitable Financial Companies

Michael J. Gill
1977-1978
Bankers Trust Company

Jeffrey R. Grandy
1982-1989
Citicorp North America

Richard M. Gunthel
1988-Present
Bankers Trust Company

William G. Herbster
1974-1976
First National City Bank

Harold K. Herzog
(HPMC) 1986-1987
New York Life Insurance Company

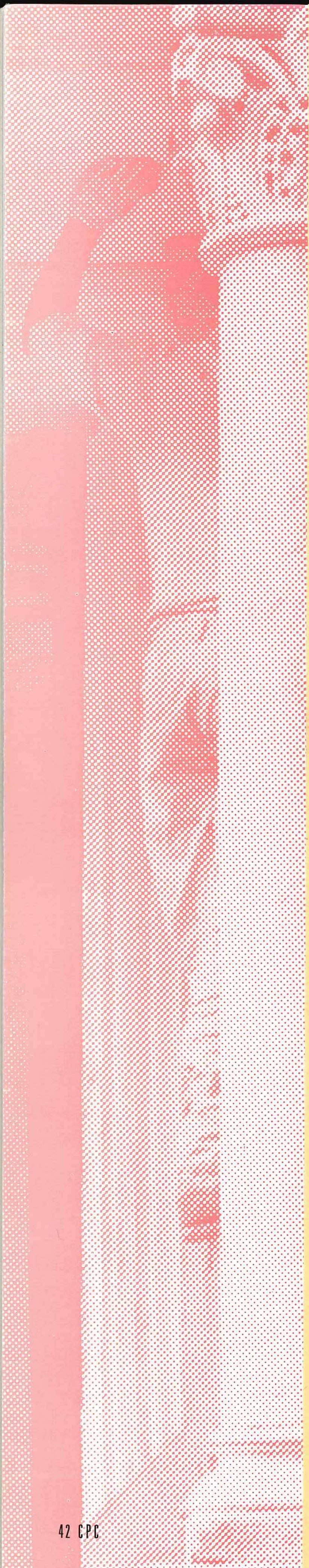
John A. Hooper
1979-1985
The Chase Manhattan Bank, N.A.

Pazel G. Jackson, Jr.
1982-1986
The Bowery Savings Bank

John D. Kyle
1981-1988
Chemical Bank

Edward M. Lamont
1975-1978
Morgan Guaranty Trust Company of New York

Edgar A. Lampert
1974, 1980-1981



Michael D. Lappin
1988-Present
The Community Preservation Corporation

I.J. Lasurdo
1982-Present
The Green Point Savings Bank

John F. Lee
1974-Present
The New York Clearing House Association

Robert O. Lehrman
1987-Present
Savings Banks Association of New York State

Gerald M. Levy
1989-Present
Chemical Realty Group

William G. Lillis
1982-Present
American Savings Bank

Warren T. Lindquist
1974, 1980-1981

Robert I. Lipp
1979-1980
Chemical Bank

Charles H. Miller
1975
Dime Savings Bank of New York

Alfred S. Mills
1974-1978
The New York Bank for Savings

John H. Motley
1988
Chemical Bank

Francis X. Murphy
1977-1978
Marine Midland Bank

James F. Murray
1985-Present
The Chase Manhattan Bank, N.A.

John M. Nosworthy
1975-1977
Eastern Savings Bank

Raymond V. O'Brien, Jr.
1985-Present
Emigrant Savings Bank

Thomas P. O'Connor
(HPMC) 1987-1988
New York Life Insurance Company

Frank J. Ollari
(CPC) 1989-Present
(HPMC) 1989
New York Life Insurance Company

William F. Olson
1989-Present
Peoples Westchester Savings Bank

William E. Panitz
1974, 1976-1978
Citibank, N.A.

William C. Plog
1974
TASCO

John R. Price
1974-1975
Manufacturers Hanover Trust Company

Joseph H. Quinn
1974-1976
The Chase Manhattan Bank, N.A.

Vincent J. Quinn
1983-1984
Metropolitan Savings Bank

John W. Raber
1979-1981
The Green Point Savings Bank

Lloyd Reed
(HPMC) 1987-1988
Mutual Life Insurance Company of New York

David Rockefeller
1974-1976
The Chase Manhattan Bank, N.A.

Frederick H. Schneider
1981-1982
Roosevelt Savings Bank

Charles C. Smith
1979-1981
Bankers Trust Company

Donald L. Thomas
1975-1989
Anchor Savings Bank

George F. Ulich
1978, 1980
The Williamsburgh Savings Bank

John H. Vogel
1979-1981
National Bank of North America

Robert F. Wallace
1983-1985
National Westminster Bank USA

Michael J. Wechsler
1974-1978
Chemical Bank

References to HPMC are to Housing Partnership Mortgage Corporation, which existed from 1986 to 1989. CPC directors during that time were also directors of HPMC.

Current Directors and Officers

Board of Directors

Raymond V. O'Brien, Jr.
Chairman
Chairman of the Board & CEO
Emigrant Savings Bank

Glen E. Coverdale
Vice Chairman
Executive Vice President
Metropolitan Life Insurance Company

Frank G. Creamer, Jr.
Executive Director
Citicorp Real Estate, Inc.

William C. Frentz
Vice President
Guardian Life Insurance Company of America

Harry D. Garber
Vice Chairman
The Equitable Financial Companies

Jeffrey R. Grandy*
Senior Vice President
Citicorp North America

Richard M. Gunthel
Managing Director
Bankers Trust Company

Michael D. Lappin
President & CEO
The Community Preservation Corporation

I.J. Lasurdo
Chairman of the Board
The Green Point Savings Bank

John F. Lee
President
The New York Clearing House Association

Robert O. Lehrman
President & CEO
Savings Banks Association of New York State

Gerald M. Levy
Managing Director
Chemical Realty Group

William G. Lillis
President & CEO
American Savings Bank

James F. Murray
Executive Vice President
The Chase Manhattan Bank, N.A.

Thomas P. O'Connor*
Senior Vice President
New York Life Insurance Company

Frank J. Ollari
Senior Vice President
New York Life Insurance Company

William F. Olson
Chairman, President & CEO
Peoples Westchester Savings Bank

Lloyd Reed, Esq.*
Vice President
Mutual Life Insurance Company of New York

Donald L. Thomas*
Chairman of the Board
Anchor Savings Bank

*Resigned during 1988-89

Mortgage Committee

Murray F. Mascis
Chairman
Managing Director
Citicorp Real Estate, Inc.

Harry A. Baierlein, Jr.
Vice Chairman, NYC
Administrative Vice President
CrossLand Savings Bank

Leonard Saluto
Vice Chairman, Upstate
First Senior Vice President
Peoples Westchester Savings Bank

G. Abbott Davis*
Senior Vice President
Apple Bank for Savings

Andrea F. Glickhouse
Investment Officer
Home Life Insurance Company

George F. Hosey
Senior Vice President
Manufacturers Hanover Trust Company

Robin R. Lampert
Assistant Investment Officer
Teachers Insurance & Annuity Association

Michael D. Lappin
President & CEO
The Community Preservation Corporation

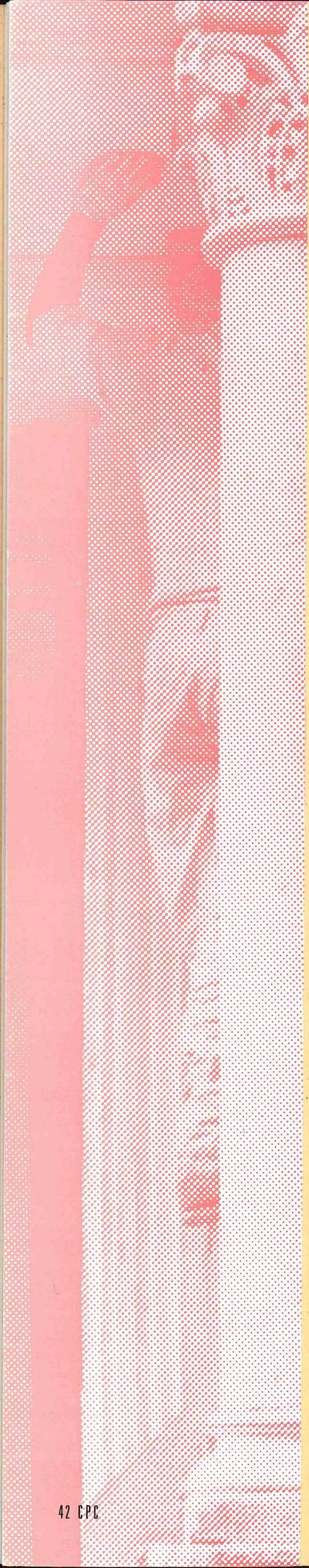
Roland Peracca, Jr.
Vice President
The Chase Manhattan Bank, N.A.

Joseph L. Sledge
Regional Manager
Metropolitan Life Insurance Company

Charles S. Taus*
Senior Vice President
Apple Bank for Savings

H.L. Van Varick
Executive Vice President
American Savings Bank

*Resigned during 1988-89



Officers and Staff

Michael D. Lappin
President & CEO

Central Office

Samuel Acquest
Office Assistant

Carolyn Au
Loan Administrator

Rhonda Berk
Loan Administrator

Julie Carr
Senior Analyst

Gloria Cobb
Secretary

Larry Danisi
Assistant Treasurer

Susan E. Foresta
Assistant Vice President

Jack Greene
Senior Vice President

Joan Guerra
Administrative Assistant

Kathleen Hager
Executive Assistant

Jennifer Howard
Assistant Loan Servicing Officer

Patricia Keker
Senior Loan Administrator

Judith Krebs
Assistant to the President

Richard A. Kumro
Vice President, General Counsel
and Secretary

John M. McCarthy
Executive Vice President

Dale F. McDonald
Senior Vice President

Andrea Miller
Secretary

Mariann Perseo
Vice President & Director of
Closings

Donald S. Prusock
Assistant Director of Closings

Francine Rivera
Receptionist

Marisol Roman
Bookkeeper

Madeline Sangiorgio
Administrative Assistant

Stefan Sebastian
Treasurer

Peter Taddeo
Assistant Bookkeeper

Manhattan/Bronx Office

Bruce Dale
Vice President

Manuel Michael Colon
Mortgage Intern

Richard P. Conley
Mortgage Officer

Christopher Garlin
Assistant Mortgage Officer

Susan L. Swider
Mortgage Officer

Patricia Young
Administrative Assistant

Brooklyn/Queens Office

Mary A. Brennan
Senior Vice President

Patricia Figueroa
Mortgage Analyst

Tricia Key
Administrative Assistant

Susan M. Pollock
Assistant Vice President

Gunnel Rydstrom
Mortgage Officer

Westchester Office

Susan V. Adelman
Vice President

Joseph D'Lando
Vice President

Deborah Casagrande
Administrative Assistant

Consulting Professionals

Gerry Bakirtjy, A.I.A.
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Participating Institutions

Commercial Banks

The Bank of New York (including the former
Irving Trust Company)

Bankers Trust Company

The Chase Manhattan Bank, N.A.

Chemical Bank

Citibank, N.A.

European American Bank

Manufacturers Hanover Trust Company

Marine Midland Bank, N.A.

Morgan Guaranty Trust Company of New York

National Westminster Bank USA

United States Trust Company of New York

Savings Banks

American Savings Bank

Anchor Savings Bank

Apple Bank for Savings

The Bowery Savings Bank

CrossLand Savings FSB

The Dime Savings Bank of New York, FSB

The Dime Savings Bank of Williamsburgh

Dollar Dry Dock Bank

The East New York Savings Bank

Emigrant Savings Bank

Flushing Savings Bank

Goldome Savings Bank

The Green Point Savings Bank

Independence Savings Bank

Lincoln Savings Bank, FSB

Ridgewood Savings Bank

Roosevelt Savings Bank

The Seamen's Bank for Savings FSB

The Williamsburgh Savings Bank

Insurance Companies

The Equitable Life Assurance Society
of the United States

Guardian Life Insurance Company of America

Home Life Insurance Company

Metropolitan Life Insurance Company

Mutual Life Insurance Company of New York

New York Life Insurance Company, Inc.

Teachers Insurance & Annuity Association

Membership Pending as of Print Date:

Bank of Tokyo Trust Company

Peoples Westchester Savings Bank

Eastchester Savings Bank

Home Savings Bank

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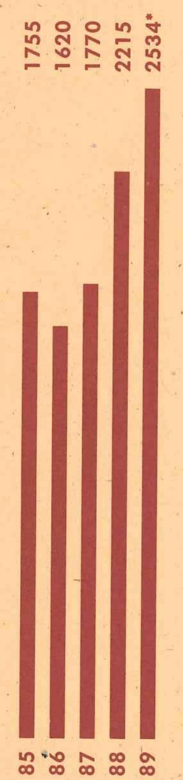
Apartment Units



*FY 88-89 contained only 10 months. See Financial Statements.

25,000 housing units a year to abandonment. This had a devastating effect on the city's low and moderate income neighborhoods.

CPC was formed following a study commissioned by the New York Clearing House Association banks to examine how the financial community might work with government to halt this deterioration. The study concluded that a huge amount of capital would be needed to preserve the city's housing stock, and that such investment would occur only with government support. CPC was proposed as the instrument to work with government and the financial community to create the conditions for investment. The city's leading commercial banks, under the leadership of David Rockefeller, and later the major savings banks, under the leadership of Alfred Mills, committed their prestige and energy to establishing CPC in 1974.

CPC was set up as an independent not-for-profit organization supported by 39 commercial and savings banks. To enable CPC to lend money under its own authority, two credit lines were established: a line of credit (now $90 million) for secured construction loans; and an agreement by the banks to purchase notes (now $100 million) secured by long-term mortgages made by CPC.

CPC has acted as a bridge between government and the financial community. In its loan origination capacity, CPC identified the regulatory and programmatic obstacles that impede investment and worked with government to address these problems. As a spokesman for the financial community, CPC provided government with a reliable understanding of

the requirements precedent to private investment. CPC, in turn, worked with its sponsoring banks to inform them of workable public programs and assist them in lending in the affordable housing market.

Preservation

CPC's initial efforts were concentrated in two neighborhoods: Washington Heights/Inwood in Manhattan and Crown Heights in Brooklyn. These neighborhoods were still viable, even though they bordered areas that had undergone extensive abandonment. If a solution could be found to arrest the decay of their predominantly multifamily housing stock, such remedies could be applied throughout the city.

The solution was the moderate rehabilitation of the buildings while tenants remained in occupancy. Typical work scopes included replacement of plumbing, boilers, upgrading of the electrical system, new roof, windows, and cosmetic improvements. These improvements, which prolong the life of the property for another generation, cost $10,000 to $15,000 per apartment.

Feasible investment in moderate rehabilitation has meant timely rent increases to pay for improvements, combined with subsidies to keep the post-rehabilitation rent increases affordable. Subsidies have included real estate tax abatements, federal rent subsidies and, for the most distressed buildings, the use of below-market funds blended with conventional financing under the city's Participation Loan Program (PLP).

While rehabilitation produced sound housing for the short term, there was concern that the long-term prospects

New Loans Closed
($ in millions)

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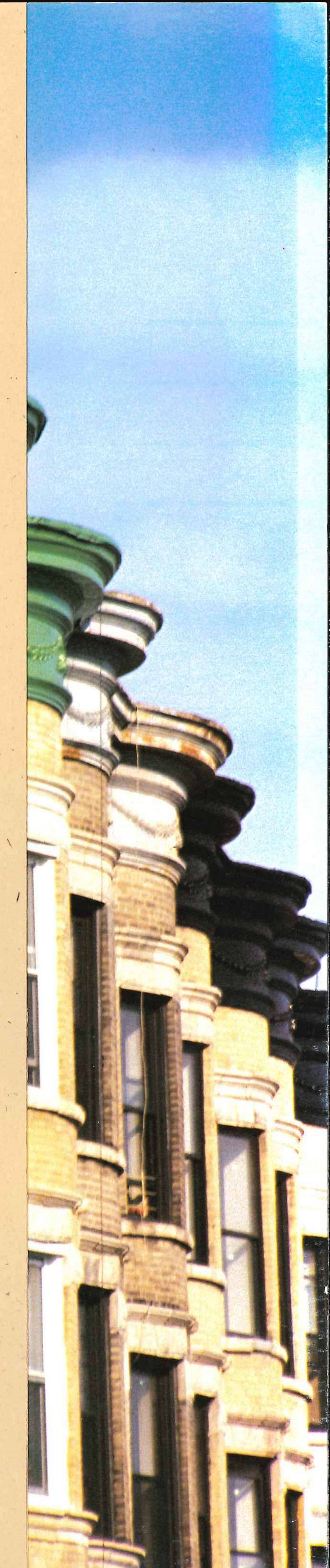

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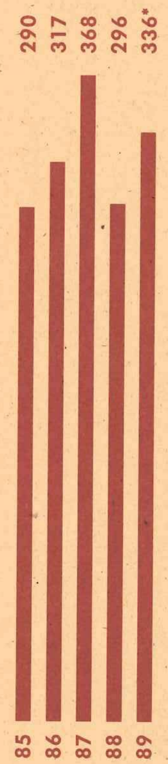
Loans Serviced



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of these buildings would be overwhelmed by larger economic and social forces. The creation of city (soon followed by state) mortgage insurance to insure building mortgage loans became a necessary adjunct to sustain private investment.

To encourage neighborhood owners with limited resources and experience to undertake rehabilitation, CPC worked closely with government to streamline procedures to provide quick loan and subsidy approvals. CPC also worked with community groups and political leaders to help tenants accept the temporary hardship of rehabilitation as a necessary price for the long-term benefit of better and affordable housing.

The results exceeded expectations. In Washington Heights and Inwood, over 7,000 apartments – 10 percent of the neighborhood's housing – were renovated at costs that were affordable to existing tenants, creating no displacement. More than $150 million of public and private funds were invested, with no losses.

Expansion

Encouraged by this success, CPC expanded its lending in the early 1980s to include all of the city's non-luxury areas. At the same time, the city's economy entered a prolonged boom, reversing the decline of the outer boroughs as the demand for housing reached deeply into the neighborhoods. The other side of the coin was a growing homeless population. In many neighborhoods, particularly in Manhattan, rooming houses that had once housed low income people were converted for a more affluent population.

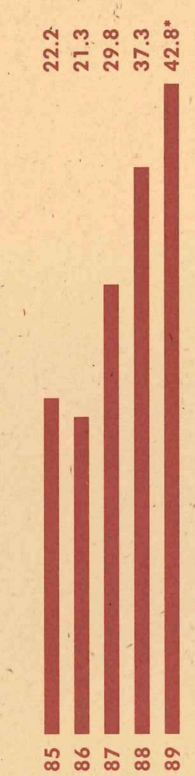
The city's response was to develop a range of programs to rebuild its stock of over 60,000 vacant apartments acquired through tax foreclosure. PLP was expanded to finance the rebuilding of some 10,000 units in vacant buildings, which were transferred to qualified private owners under the Vacant Building Program (VBP). One test of their qualifications was their ability to get CPC or other financing. VBP financed up to $43,000 per apartment with one percent mortgage money combined with $20,000 to $25,000 of market rate funds, producing apartments affordable to households earning between $20,000 and $30,000 a year. Using streamlined procedures to attract small, low-cost builders, over 3,000 units representing almost $200 million of public and private funds have been put into construction. Along with other initiatives, VBP is recreating viable areas in once devastated communities such as the South Bronx and Harlem.

Preservation efforts in occupied apartments did not, however, fare as well. Parts of the successful formula that preserved northern Manhattan fell apart. Federal Section 8 rental subsidies diminished to a trickle. Rent increases for rehabilitation—always the most difficult part of preservation—became subject to a web of new government requirements. Efforts to restore the preservation formula became a constant CPC theme.

The Financial System

Parallel to the set of public programs, CPC has constructed a system of finance. As the credit worthiness of affordable housing lending became established, new funds became available. In 1984 an agreement was reached with

Permanent Loans Closed
($ in millions)



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